

LANSING SCHOOL DISTRICT
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2006

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Lansing School District
Lansing, Michigan

September 29, 2006

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lansing School District, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lansing School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lansing School District as of June 30, 2006 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Education
Lansing School District

September 29, 2006

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2006, on our consideration of Lansing School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xvii and 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lansing School District's basic financial statements. The additional information on pages 29 to 45 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Mamer, Costeniser & Ellis, P.C." The signature is written in a cursive, flowing style.

Certified Public Accountants

Lansing School District

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

This section of the Lansing School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2006. Please read it in conjunction with the District's financial statements, which immediately follow this section.

District-Wide Financial Statements

The first two statements are district-wide financial statements that provide short-term and long-term financial information about the District's overall financial status. These statements are required by generally accepted accounting principles (GAAP) as described in the Government Accounting Standards Board (GASB) Statement No. 34. The statements are compiled using the full accrual basis of accounting and more closely represent financial statements presented by business and industry. All of the District's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt of the District.

Fund Financial Statements

For the most part, the fund financial statements are comparable to financial statements for fiscal years prior to 2003-04. The primary difference is that the Account Groups (General Fixed Asset and General Long-term Debt) are no longer reported. The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The formats of the fund statements comply with the requirements of the Michigan Department of Education's "Accounting Manual". In the state of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds and these include Special Revenue Funds, Debt Service Funds, and Capital Projects Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

Lansing School District
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Summary of Net Assets

The following schedule summarizes the net assets for fiscal years ended June 30, 2006 and 2005:

Assets	June 30, 2006	June 30, 2005
Current assets	\$ 77,124,763	\$ 104,074,704
Capital assets	148,229,029	114,265,019
Less: Accumulated depreciation	(72,519,327)	(70,898,248)
Capital assets, net book value	75,709,702	43,366,771
Other noncurrent assets	320,581	344,144
Total assets	<u>\$ 153,155,046</u>	<u>\$ 147,785,619</u>
Liabilities		
Current liabilities	\$ 37,433,318	\$ 31,317,153
Long-term liabilities	82,401,483	88,860,218
Total liabilities	<u>119,834,801</u>	<u>120,177,371</u>
Net Assets		
Invested in capital assets, net of related debt	24,029,898	19,742,902
Restricted for debt service	962,160	535,953
Unrestricted	8,328,187	7,329,393
Total net assets	<u>33,320,245</u>	<u>27,608,248</u>
Total liabilities and net assets	<u>\$ 153,155,046</u>	<u>\$ 147,785,619</u>

Lansing School District

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

Analysis of Financial Position

During the fiscal year ended June 30, 2006, the District's net assets increased by \$5,711,997. A few of the more significant factors affecting net assets during the year are discussed below:

1. **Depreciation Expense**

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the assets less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2006, \$2,747,542 was recorded for depreciation expense.

2. **Capital Outlay Acquisitions**

For the fiscal year ended June 30, 2006, \$35,329,099 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets, assets disposed of during the fiscal year, and the current year's depreciation is a net increase to capital assets in the amount of \$32,342,931 for the fiscal year ended June 30, 2006. Approximately \$34.4 million of this increase was due to the construction in progress for the new Pattengill Middle School and renovations to all other secondary schools.

Lansing School District

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

Results of Operations

For the fiscal years ended June 30, 2006 and 2005, the results of operations, on a District-wide basis, were:

	Fiscal year ended June 30, 2006		Fiscal year ended June 30, 2005	
	Amount	% of total	Amount	% of total
General revenues				
Property taxes	\$ 30,249,491	16.0%	\$ 29,181,772	15.3%
Investment earnings	2,711,202	1.4%	1,830,669	1.0%
State sources	99,657,503	52.6%	103,248,512	54.2%
County special education allocation	10,625,092	5.5%	10,500,458	5.5%
Other	2,153,193	1.4%	1,554,280	0.9%
Total general revenues	145,396,481	76.9%	146,315,691	76.9%
Program revenues				
Charges for services	3,523,447	1.9%	3,766,208	2.0%
Operating grants	40,602,085	21.2%	40,155,417	21.1%
Total revenues	189,522,013	100.0%	190,237,316	100.0%
Expenses				
Instruction	95,009,149	51.9%	108,129,210	54.7%
Support services	75,566,431	41.1%	75,828,692	38.4%
Community services	389,310	0.2%	303,769	0.2%
Food services	5,656,194	3.0%	6,090,320	3.1%
Athletics	1,738,550	0.9%	1,593,644	0.8%
Interest on long-term debt	3,512,347	1.9%	3,648,861	1.8%
Unallocated depreciation expense	1,938,035	1.0%	2,066,200	1.0%
Total expenses	\$ 183,810,016	100.0%	\$ 197,660,696	100.0%
Increase (decrease) in net assets	\$ 5,711,997		\$ (7,423,380)	

Lansing School District

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

Analysis of Significant Revenue and Expenses

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District levies 18.0 mills of property taxes for operations on non-homestead property, less the mandatory reductions required by the Headlee Amendment, Article IX, Section 31 which results in an actual levy of 17.9262 mills. According to Michigan law, the tax levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of increase in the prior year's Consumer Price Index or 5%, whichever is less. At the time the property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is one half of the property's market value.

For the 2005-2006 fiscal year, the District levied \$24,417,101 in non-homestead property taxes. This amount represented an increase of 8.2% from the prior year. The amount of the unpaid property taxes at June 30, 2006, less an estimate for uncollectible taxes, was \$197,112.

The following table summarizes the non-homestead property tax levies for operations for the past five years:

Fiscal Year	Non-homestead tax levy	% increase (decrease) from prior year
2005-2006	\$ 24,417,101	8.2%
2004-2005	22,557,846	3.0%
2003-2004	21,891,205	6.4%
2002-2003	20,573,740	9.5%
2001-2002	18,786,985	(1.8)%

2. State Sources

The majority of the state sources of revenue is comprised of the per student foundation allowance. The State of Michigan funds school districts based on a blended student enrollment. The blended enrollment consists of 75% of the current year's fall count and 25% of the prior fiscal year's spring count. For the 2005-2006 fiscal year, the District received \$7,280 per student (FTE) exclusive of the \$163 per pupil received for class size reduction, which represented an increase of \$150 per pupil from the amount received for the 2004-2005 fiscal year.

Lansing School District

Management Discussion and Analysis

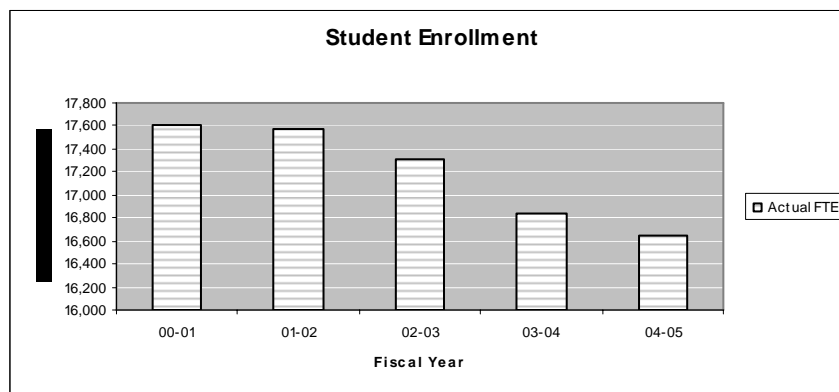
For the Fiscal Year Ended June 30, 2006

3. Student Enrollment

The following schedule compares actual to budgeted student enrollment (FTE) for the past five fiscal years:

Fiscal Year	Budgets blended student FTE	Actual blended student FTE	Variance favorable (unfavorable)
2005-2006	16,304	16,007	(297)
2004-2005	16,421	16,644	223
2003-2004	16,983	16,832	(151)
2002-2003	17,498	17,309	(189)
2001-2002	17,484	17,577	93

The graph depicts an 8.9% decline in the number of students enrolled during the last 5 years.



4. Operating Grants

The District receives a significant portion of its operating revenue from categorical grants. For the fiscal year ended June 30, 2006, federal, state, and other grants accounted for \$40,602,085. This amount represents a 0.1% decrease from the total grant sources of \$40,155,417 received for the 2004-2005 fiscal year.

Lansing School District

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

5. County Special Education Allocation

For the fiscal year ended June 30, 2006, the District received a net allocation from the Ingham Intermediate School District in the amount of \$10,625,092 to assist with the education of students with special needs. This amount represents an increase of \$124,634 from the prior year.

6. Interest Earnings

The District received interest on its investment of short-term available cash in the amount of \$2,711,202 for the fiscal year ended June 30, 2006. Interest revenues are more than the prior fiscal year by \$880,532 due to a gradual increase in interest rates during the year and the investment of the proceeds of the 2003 bonds which is being expended for various capital projects including the construction of the new Pattengill Middle School.

7. Comparative Expenditures

A comparison of the expenditures reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances is shown below:

Expenditures	Fiscal year 2005 - 2006	Fiscal year 2004 - 2005	Increase (decrease)
Instruction	\$ 97,705,003	\$ 99,704,432	\$ (1,999,429)
Supporting services	74,948,117	77,177,080	(2,228,963)
Food service activities	5,607,321	5,980,407	(373,086)
Athletic activities	1,608,826	1,438,880	169,946
Community service activities	388,969	302,564	86,405
Capital outlay	35,540,238	11,011,421	24,528,817
Debt service	6,944,019	6,480,600	463,419
Total expenditures	<u>\$ 222,742,493</u>	<u>\$ 202,095,384</u>	<u>\$ 20,647,109</u>

Lansing School District

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

8. General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the annual budget prior to the start of the fiscal year on July 1. Any amendments to the original budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2005-2006 fiscal year, the District amended the general fund budget twice, with the Board adopting the final changes in June, 2006.

The following schedule shows a comparison of the original general fund budget, the final amended budget, and actual totals from operations.

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget</u>	<u>% variance</u>
Total revenues	<u>\$ 177,092,000</u>	<u>\$ 174,100,000</u>	<u>\$ 173,899,057</u>	<u>\$ (200,943)</u>	<u>(1.2)</u>
Expenditures					
Instruction	\$ 99,822,000	\$ 97,740,000	\$ 97,705,003	\$ 34,997	0.2
Supporting services	75,060,000	75,700,000	74,948,117	751,883	(0.3)
Community services	310,000	370,000	388,969	(18,969)	(12.0)
Total expenditures	<u>\$ 175,192,000</u>	<u>\$ 173,810,000</u>	<u>\$ 173,042,089</u>	<u>\$ 767,911</u>	
Other financing sources (uses)	<u>\$ (2,700,000)</u>	<u>\$ (2,440,000)</u>	<u>\$ (3,842,907)</u>	<u>\$ (1,402,907)</u>	<u>(57.4)</u>

The original revenue budget of \$177.1 million was decreased to \$174.1 million to recognize the effect of a larger than expected decline in student enrollment on the State foundation allowance.

Lansing School District

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

Capital Asset and Debt Administration

Capital Assets

By the end of the 2005-2006 fiscal year, the District had invested approximately \$148 million in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents a net increase of approximately \$32 million over the prior fiscal year. Depreciation expense for the year amounted to approximately \$2.7 million, bringing the accumulated depreciation to approximately \$72.5 million as of June 30, 2006.

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>2006 net book value</u>	<u>2005 net book value</u>
Land	\$ 4,634,663	\$	\$ 4,634,663	\$ 4,762,763
Construction in process	44,290,879		44,290,879	9,865,528
Land improvements	11,075,519	7,971,002	3,104,517	3,402,355
Buildings and additions	73,527,399	53,239,100	20,288,299	21,175,096
Buses	4,995,337	3,487,929	1,507,408	1,707,776
Transportation equipment	1,554,890	1,245,829	309,061	445,327
Machinery and equipment	8,150,342	6,575,467	1,574,875	2,007,926
	<u>\$ 148,229,029</u>	<u>\$ 72,519,327</u>	<u>\$ 75,709,702</u>	<u>\$ 43,366,771</u>

Long-term Debt

At June 30, 2006, the District had approximately \$80.0 million in bonded debt outstanding. Total outstanding debt decreased as the District continued to pay down its debt, retiring \$3.7 million of outstanding bonds. No new bonds were issued during the fiscal year.

Lansing School District

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future.

- The student foundation allowance for the 2006-2007 has been increased by \$210 to \$7,490 per pupil. This amounts to an increase of 2.9%. Additional foundation allowance funds will be received by those districts, including Lansing, that have been experiencing decreases in funding in recent years due to declining enrollment.
- The uncertainty of student foundation funding levels reflects the economic difficulties faced by the State. Michigan continues to trail the national averages in most economic indicators. The impact of the state's economic problems is demonstrated by the number of families with incomes below the poverty level in the Lansing area and the increasing proportion of students who qualify for free and reduced-cost school lunches. Analysts have described the situation as a "single state recession" and are predicting a slow recovery in state and local economies.
- The District will continue to realize the benefits of cost saving measures such as the early retirement incentive program for teachers which went into effect at July 1, 2005. Additional long-term savings are expected from the installation of a new telephone system and expected negotiated changes to health insurance programs offered to District employees. The savings from these structural changes will lessen the impact of anticipated increases in benefit and other operating costs for years to come, but additional cost reductions and operational efficiencies will be needed to offset rising costs and diminishing revenues related to declining student enrollments.
- Long-range capital improvement plans are being developed to address the issue of District school buildings with an average age of 54 years. Increasing maintenance, repair and utility costs for school and other facilities are imposing a significant burden on the operating budget of the Lansing School District. The sale of three vacant elementary school buildings generated approximately \$850,000 during the current fiscal year and a number of other buildings are currently awaiting the closure of sales agreements.

Lansing School District

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

- Student enrollment which has declined by approximately 5% over the past five years is expected to continue falling as the effects of an overall decrease in the student age population and the movement of students to other school districts via the Schools of Choice program impact the Lansing School District. Additionally, the State's weak economic condition has led to a loss of jobs and has resulted in a dramatic increase in the number of families and students leaving Michigan.
- The construction projects funded by the 2004 Building and Site Bonds are expected to be completed in December, 2006. The new Pattengill Middle school, shown below, is scheduled to open in January, 2007.



- In order to deal with the “unknowns” of the future, the District is increasing its efforts in the areas of strategic and multi-year financial planning.
- Labor agreements for the District's teachers expired on June 30, 2006. Contract negotiations are underway for teachers and other bargaining units. The District's administration is hopeful that satisfactory agreements can be reached in the near future.
- As the 2005-06 school year ended, the District was in the process of contracting for food service management. Privatization of the food service management will improve the offerings to students and bring financial stability to the operation. It is anticipated that the contract with the approved vendor will be implemented in the Fall, 2006.

Lansing School District

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

- The District's Superintendent since the year 2000, Dr. E. Sharon Banks, has announced her intentions to retire effective at the end of the 2006-07 school year. The Board of Education is conducting a national search for a new superintendent with the intention of selecting a replacement during the winter months.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact the Chief Financial Officer's office, Lansing School District, 519 W. Kalamazoo Street, Lansing, Michigan, 48933.

**LANSING SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006**

	ASSETS	Governmental activities
CURRENT ASSETS:		
Cash and cash equivalents		\$ 9,975,220
Receivables:		
Accounts receivable		472,678
Taxes receivable		1,947,567
Interest receivable		220,060
Due from other governmental units		26,031,888
Inventories		613,057
Prepaid expenditures		451,710
Restricted cash - capital projects		14,197,125
Restricted investments - capital projects		23,215,458
TOTAL CURRENT ASSETS		<u>77,124,763</u>
NONCURRENT ASSETS:		
Capital assets		148,229,029
Less accumulated depreciation		<u>(72,519,327)</u>
Capital assets net of accumulated depreciation		75,709,702
Deferred charges, net of amortization		<u>320,581</u>
TOTAL NONCURRENT ASSETS		<u>76,030,283</u>
TOTAL ASSETS		<u><u>\$ 153,155,046</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Checks drawn against future deposits		\$ 2,862,285
Accounts payable		9,052,265
Accrued salaries and related items		13,589,457
Accrued interest		540,375
Accrued expenses		200,000
Deferred revenue		3,087,481
Current portion of accrued severance		3,014,825
Current portion of long-term obligations		3,648,215
Current portion of compensated absences		1,438,415
TOTAL CURRENT LIABILITIES		<u>37,433,318</u>
NONCURRENT LIABILITIES:		
Noncurrent portion of accrued severance		3,014,825
Noncurrent portion of long-term obligations		76,564,171
Compensated absences and workers compensation		2,493,082
Long-term interest		329,405
TOTAL NONCURRENT LIABILITIES		<u>82,401,483</u>
TOTAL LIABILITIES		<u>119,834,801</u>
NET ASSETS:		
Invested in capital assets net of related debt		24,029,898
Restricted for debt service		962,160
Unrestricted		8,328,187
TOTAL NET ASSETS		<u>33,320,245</u>
TOTAL LIABILITIES AND NET ASSETS		<u><u>\$ 153,155,046</u></u>

**LANSING SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 95,009,149	\$ 1,285,694	\$ 25,652,324	\$ (68,071,131)
Support services	75,566,431	798,720	9,923,081	(64,844,630)
Community services	389,310		369,242	(20,068)
Food services	5,656,194	1,200,902	4,506,032	50,740
Athletics	1,738,550	238,131		(1,500,419)
Interest on long-term debt	3,512,347		151,406	(3,360,941)
Unallocated depreciation	1,938,035			(1,938,035)
Total governmental activities	<u>\$ 183,810,016</u>	<u>\$ 3,523,447</u>	<u>\$ 40,602,085</u>	(139,684,484)
General revenues:				
Property taxes, levied for general purposes				23,909,755
Property taxes, levied for debt service				6,339,736
Investment earnings				2,711,202
Gain on sale of assets - special item				604,832
State sources				99,657,503
Ingham ISD special education allocation				10,625,092
Other				1,548,361
Total general revenues				<u>145,396,481</u>
CHANGE IN NET ASSETS				5,711,997
NET ASSETS, beginning of year				<u>27,608,248</u>
NET ASSETS, end of year				<u>\$ 33,320,245</u>

LANSING SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General fund	2003 bond capital projects funds	Other nonmajor governmental funds	Total governmental funds
ASSETS				
ASSETS:				
Cash and cash equivalents	\$ 4,992,725	\$	\$ 4,982,495	\$ 9,975,220
Receivables:				
Property taxes receivable	1,620,982		326,585	1,947,567
Accounts receivable	461,370		11,308	472,678
Interest receivable	26,515	193,545		220,060
Due from other governmental units	25,883,999		147,889	26,031,888
Due from other funds	2,891,687		1,851,275	4,742,962
Inventories	462,892		150,165	613,057
Prepaid expenditures	451,710			451,710
Restricted cash - capital projects		14,197,125		14,197,125
Restricted investments - capital projects		23,215,458		23,215,458
TOTAL ASSETS	\$ 36,791,880	\$ 37,606,128	\$ 7,469,717	\$ 81,867,725
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Checks drawn against future deposits	\$ 2,862,285	\$	\$	\$ 2,862,285
Accounts payable	1,940,820	6,955,894	155,551	9,052,265
Accrued salaries and related items	13,364,354		70,643	13,434,997
Due to other funds		4,150,683	592,279	4,742,962
Accrued expenses	200,000			200,000
Deferred revenue	3,461,306		4,877	3,466,183
TOTAL LIABILITIES	21,828,765	11,106,577	823,350	33,758,692
FUND BALANCES:				
Reserved for encumbrances and capital projects	174,653	26,499,551	4,809,321	31,483,525
Reserved for inventories	462,892			462,892
Reserved for prepaid expenditures	451,710			451,710
Reserved for debt service			1,831,940	1,831,940

	General fund	2003 bond capital projects funds	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES (Concluded):				
Designated for subsequent years' expenditures:				
School carryover	\$ 100,000			\$ 100,000
Designated for technology:				
USF projects	70,000			70,000
Unreserved, undesignated	13,703,860		5,106	13,708,966
TOTAL FUND BALANCES	14,963,115	26,499,551	6,646,367	48,109,033
TOTAL LIABILITIES AND FUND BALANCES	\$ 36,791,880	\$ 37,606,128	\$ 7,469,717	\$ 81,867,725

Total Governmental Fund Balances	\$ 48,109,033
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
Capital assets	\$ 148,229,029
Accumulated depreciation	(72,519,327)
The value of amortized bond issuance costs	404,603
Accumulated amortization	(84,022)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(80,089,524)
Installment purchase	(122,862)
Accrued severance pay	(6,029,650)
Deferred salaries payable	(154,460)
Compensated absences	(3,931,497)
Accrued interest is not included as a liability in government funds, it is recorded when paid	(869,780)
Deferred due from other governmental units at 6/30/06 expected to be collected after September 1, 2006	349,592
Deferred property taxes receivable at 6/30/06 expected to be collected after September 1, 2006	29,110
Net assets of governmental activities	\$ 33,320,245

LANSING SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General fund	2003 bond capital projects funds	Other nonmajor governmental funds	Total governmental funds
REVENUES:				
Local sources:				
Property taxes	\$ 23,972,119	\$	\$ 6,339,736	\$ 30,311,855
Investment earnings	397,476	2,020,501	293,225	2,711,202
Food sales and athletic admissions			1,439,033	1,439,033
Other	3,773,278		25,010	3,798,288
Total local sources	28,142,873	2,020,501	8,097,004	38,260,378
State sources	109,544,308		718,813	110,263,121
Federal sources	25,507,620		4,274,500	29,782,120
Incoming transfers	10,655,424			10,655,424
Intermediate sources	48,832			48,832
Total revenues	173,899,057	2,020,501	13,090,317	189,009,875
EXPENDITURES:				
Current:				
Instruction	97,705,003			97,705,003
Supporting services	74,948,117			74,948,117
Food service activities			5,607,321	5,607,321
Athletic activities			1,608,826	1,608,826
Community service activities	388,969			388,969
Capital outlay		34,198,922	1,341,316	35,540,238
Debt service:				
Principal repayment			3,475,875	3,475,875
Interest expense			3,462,969	3,462,969
Other expense			5,175	5,175
Total expenditures	173,042,089	34,198,922	15,501,482	222,742,493
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	856,968	(32,178,421)	(2,411,165)	(33,732,618)
OTHER FINANCING SOURCES (USES):				
Proceeds from issuance of debt	184,292			184,292
Operating transfers from other funds	270,052		4,297,251	4,567,303
Operating transfers to other funds	(4,297,251)		(270,052)	(4,567,303)
Total other financing sources (uses)	(3,842,907)		4,027,199	184,292
SPECIAL ITEM:				
Sale of school buildings	843,458			843,458
NET CHANGE IN FUND BALANCES	(2,142,481)	(32,178,421)	1,616,034	(32,704,868)
FUND BALANCES:				
Beginning of year	17,105,596	58,677,972	5,030,333	80,813,901
End of year	\$ 14,963,115	\$ 26,499,551	\$ 6,646,367	\$ 48,109,033

**LANSING SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

Net change in fund balances total governmental funds \$(32,704,868)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures, in the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(2,747,542)
Capital outlay	35,329,099
Net book value of assets sold	(238,626)

Accrued interest on bonds is recorded in the statement of activities when incurred; it is recorded in governmental funds when it is paid:

Accrued interest payable beginning of the year	820,402
Accrued interest payable end of the year	(869,780)

Accrued severance pay and deferred salaries are recorded in the statement of activities when incurred, but are not recorded in the governmental funds until paid:

Accrued severance pay beginning of year	8,994,473
Accrued severance end of year	(6,029,650)
Deferred salaries paid to teachers	(154,460)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, where as these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items as follows:

Payments on debt	3,537,308
Proceeds from issuance of debt	(184,292)
Amortization expense	(23,563)
Amortized premium	211,899

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue, beginning of the year	(471,398)
Deferred revenue, end of the year	378,702

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences beginning of the year	3,795,790
Accrued compensated absences end of the year	(3,931,497)

Change in net assets of governmental activities	\$ 5,711,997
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**LANSING SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006**

	<u>Private purpose trust fund</u>	<u>Agency fund</u>
ASSETS		
ASSETS:		
Cash	\$ 378,480	\$ 972,689
Accounts receivable	108	141,713
	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 378,588</u></u>	<u><u>\$ 1,114,402</u></u>
 LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 33,679	\$ 70,842
Accrued expenses	6,865	
Due to student groups		1,043,560
	<u> </u>	<u> </u>
TOTAL LIABILITIES	40,544	1,114,402
NET ASSETS:		
Reserved for trust activities	338,044	
	<u> </u>	<u> </u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 378,588</u></u>	<u><u>\$ 1,114,402</u></u>

**LANSING SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2006**

	Private purpose trust fund
ADDITIONS:	
Donations	\$ 109,605
Interest earnings	15,041
Other	113,831
	<hr/>
Total additions	238,477
	<hr/>
DEDUCTIONS:	
Scholarships awarded	59,013
Other	141,975
	<hr/>
Total deductions	200,988
	<hr/>
CHANGE IN NET ASSETS	37,489
	<hr/>
NET ASSETS:	
Beginning of year	300,555
	<hr/>
End of year	\$ 338,044
	<hr/> <hr/>

LANSING SCHOOL DISTRICT NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Lansing School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Lansing School District (the "District") is governed by the Lansing School District Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Nos. 14 and 39.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**LANSING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *2003 capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

**LANSING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The following is a summary of the revenue and expenditures for the 2003 bond:

Revenue	<u>\$ 3,441,136</u>
Expenditures and transfers	<u>\$ 44,496,534</u>

The above revenue figure does not include original bond proceeds of \$67,554,949.

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects funds* account for the receipt of debt proceeds and transfers from the general fund for the acquisition of fixed assets or construction of major capital projects.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *private purpose trust fund* is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where both the principal and interest may be spent. These funds are not reported on the District financial statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

**LANSING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period unless there are special circumstances. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

**LANSING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies

State Revenue (Concluded)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. state rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

1. Cash and equivalents include amounts in demand deposits and certificates of deposit

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**LANSING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

2. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund - Non-homestead	17.9262
Debt service fund - Homestead and non-homestead	2.472

3. Inventories and prepaid expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

**LANSING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Other Accounting Policies (Concluded)

5. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 – 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000. Group purchases are analyzed on a case-by-case basis.

6. Compensated absences

The District's contracts generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

7. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt.

**LANSING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

7. Long-term obligations(Concluded)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at year end. The District utilizes a formal encumbrance accounting system.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.

**LANSING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, for the general fund are noted in the required supplementary information section.
4. The Deputy Superintendent of Business is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general, special revenue and debt service funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The District does not consider these amendments to be significant.

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2006 the District had the following investments:

Investment Type	Fair value	Weighted average maturity (years)	Rating	%
U.S. Agency Notes	<u>\$23,215,458</u>	<u>0.3509</u>	AAA	<u>100%</u>
Total fair value	<u><u>\$23,215,458</u></u>			100%
Portfolio weighted average maturity		<u><u>0.3509</u></u>		

1 day maturity equals 0.0027, one year equals 1.00

**LANSING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). The District does not allow direct investment in commercial paper or corporate bonds.

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$24,787,010 of the District's bank balance of \$25,369,912 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount of all deposits is \$25,523,514.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of \$1,351,169	\$ 25,523,514
Investments	23,215,458
	<u>\$ 48,738,972</u>

**LANSING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Concluded)

The above amounts are reported in the financial statements as follows:

Cash private purpose trust fund	\$ 378,480
Cash agency fund	972,689
Cash - district wide	24,172,345
Investments - district wide	23,215,458
	<u>\$ 48,738,972</u>

NOTE 4 – CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Assets not being depreciated:				
Land	\$ 4,762,763	\$	\$ 128,100	\$ 4,634,663
Construction in progress	9,865,528	35,236,557	811,206	44,290,879
Subtotal	14,628,291	35,236,557	939,306	48,925,542
Other capital assets:				
Land improvements	11,087,741		12,222	11,075,519
Buildings and additions	74,069,060	811,206	1,352,867	73,527,399
Machinery and equipment	8,140,945	9,397		8,150,342
Transportation equipment	6,338,982	211,245		6,550,227
Subtotal	99,636,728	1,031,848	1,365,089	99,303,487
Accumulated depreciation:				
Land improvements	7,685,386	286,227	611	7,971,002
Buildings and additions	52,893,964	1,470,987	1,125,852	53,239,099
Machinery and equipment	6,133,019	442,448		6,575,467
Transportation equipment	4,185,879	547,880		4,733,759
Subtotal	70,898,248	2,747,542	1,126,463	72,519,327
Net other capital assets	28,738,480	(1,715,694)	238,626	26,784,160
Net capital assets	<u>\$ 43,366,771</u>	<u>\$ 33,520,863</u>	<u>\$ 1,177,932</u>	<u>\$ 75,709,702</u>

Depreciation for the fiscal year ended June 30, 2006 amounted to \$2,747,542.

**LANSING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 – CAPITAL ASSETS

Depreciation expense was charged to programs of the District as follows:

Instruction	\$ 18,619
Support service	598,799
Food service	62,365
Athletics	129,724
Unallocated	<u>1,938,035</u>
	<u><u>\$ 2,747,542</u></u>

NOTE 5 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of governmental long-term obligations for the District for the year ended June 30, 2006:

	Self-insured workers compensation plan	Termination benefits and compensated absences	Severance benefits	Note payable	Bonds	Total
Balance, July 1, 2005	\$ 143,548	\$ 3,652,242	\$ 8,994,473	\$	\$ 83,777,300	\$ 96,567,563
Additions	178,003			184,292		362,295
Deletions		42,296	2,964,823	61,430	3,687,776	6,756,325
Balance, June 30, 2006	321,551	3,609,946	6,029,650	122,862	80,089,524	90,173,533
Less current portion		1,438,415	3,014,825	61,430	3,586,785	8,101,455
Total due after one year	<u><u>\$ 321,551</u></u>	<u><u>\$ 2,171,531</u></u>	<u><u>\$ 3,014,825</u></u>	<u><u>\$ 61,432</u></u>	<u><u>\$ 76,502,739</u></u>	<u><u>\$ 82,072,078</u></u>

**LANSING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM DEBT (Continued)

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of governmental long-term obligations for the District for the year ended June 30, 2006:

The District implemented an early retirement severance benefit program during the year. The liability of \$6,029,650 will be paid as follows:

Year ending June 30,	
2007	\$ 3,014,825
2008	<u>3,014,825</u>
Total	<u><u>\$ 6,029,650</u></u>

**LANSING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM DEBT (Continued):

Bonds payable at June 30, 2006 is comprised of the following issues:

2003 general obligation and refunding bonds due in annual installments of \$1,190,000 to \$5,025,000 through May 1, 2023, with interest at 2.0% to 5.0%	\$ 63,645,000
1998 general obligation refunding bonds due in annual installments of \$1,000,000 to \$1,035,000 through May 1, 2009 with interest at 4.25% to 5.00%	3,040,000
2002 energy conservation improvement bonds due in annual installments of \$150,000 to \$130,000 through May 1, 2012 with interest at 3.00% to 3.75%.	705,000
2002 QZAB bond due in one installment of \$5,000,000 in September 2016 with interest of 0%	5,000,000
Plus: premium on 2003 bond issuance (net)	3,699,572
Less: deferred loss on 2003 bond refunding (net)	<u>(97,288)</u>
Total general obligation debt	75,992,284
1998 Limited obligation bonds (Durant bonds) due in annual installments of \$351,785 to \$1,639,391 through May 2013 with interest at 4.76%	4,097,240
Note payable - phones - due in semi-annual installments of \$30,715 from October 22, 2006 to April 22, 2008, with an interest rate of 3.99%	122,862
Accrued retirement benefits and worker's compensation:	
Obligation for compensated absences and termination benefits	3,609,946
Obligation for severance benefits	6,029,650
Obligation for worker's compensation claims	<u>321,551</u>
Total debt	<u><u>\$ 90,173,533</u></u>

The District has entered into voluntary termination benefit arrangements with certain employees. The original agreement provides for a total payment to each individual of approximately \$50,000. This amount is paid out over three equal payments. There are currently approximately 170 employees entitled to future payments. The liability has been recorded at the face amount, as the discounted present value approximates the face amount of the liability.

**LANSING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM DEBT (Concluded)

The Durant bonds, including interest, were issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

The annual requirements to amortize bonded debt outstanding as of June 30, 2006, including interest payments of \$32,726,951 are as follows: At June 30, 2006, \$1,831,940 is available to service the general obligation debt.

Year ending June 30,	Principal	Interest	Amounts payable
2007	\$ 3,648,215	\$ 3,276,102	\$ 6,924,317
2008	3,760,056	3,162,553	6,922,609
2009	5,139,391	3,539,417	8,678,808
2010	3,674,548	2,788,908	6,463,456
2011	3,823,817	2,607,944	6,431,761
2012-2016	19,314,075	10,675,777	29,989,852
2017-2021	27,250,000	5,925,000	33,175,000
2022-2023	10,000,000	751,250	10,751,250
	76,610,102	32,726,951	109,337,053
Premium on bond issuance	3,699,572		3,699,572
Deferred amount on bond refunding	(97,288)		(97,288)
Compensated absences, termination, and severance benefits	9,639,596		9,639,596
Workers' compensation claims	321,551		321,551
	<u>\$ 90,173,533</u>	<u>\$ 32,726,951</u>	<u>\$ 122,900,484</u>

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account, assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2006, \$4,600,000 of bonds outstanding are considered defeased.

**LANSING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2006 are as follows:

Receivable fund		Payable fund	
General fund	\$ 2,891,687	Athletics	\$ 161,126
Debt service	79,050	2003 bond capital projects	4,150,683
Athletics	142,942	Food service	123,836
Capital projects	1,629,283	Debt service	307,317
	<u>\$ 4,742,962</u>		<u>\$ 4,742,962</u>

The outstanding balances between funds results mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All amounts are expected to be repaid within the year.

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

LANSING SCHOOL DISTRICT NOTES TO FINANCIAL STATEMENTS

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded)

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2006 were 14.87% of payroll through September 30, 2005, and 16.34% effective October 1, 2005 through June 30, 2006. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2006, 2005 and 2004 were \$16,214,992, \$15,539,450 and \$14,202,502, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which are the responsibility of the State of Michigan.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension.

NOTE 8 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

**LANSING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - CONTINGENCIES

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

NOTE 10 - TRANSFERS

The general fund transferred \$1,516,000 to the athletics funds, \$409,000 to the debt service funds, \$847,458 to the capital projects fund and \$1,500,000 to the bond project technology fund, the athletics funds transferred \$144,369 to the general fund and the food service fund transferred \$125,683 to the general fund.

The transfers to the athletics fund was to fund operations, the transfer to the debt service fund is for future retirement of debt, the transfers to the general fund were to reimburse the general fund for current year indirect and other approved costs.

NOTE 11 - COMMITMENTS

The District has active capital projects outstanding at June 30, 2006. Approximately \$26,500,000 is committed and recorded as fund balance in the 2003 capital projects fund.

REQUIRED SUPPLEMENTARY INFORMATION

**LANSING SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2006**

	Original budget	Final budget	Actual	Variance with final budget - positive (negative)
REVENUES:				
Local sources	\$ 25,665,000	\$ 27,230,000	\$ 28,142,873	\$ 912,873
State sources	112,811,000	109,900,000	109,544,308	(355,692)
Federal sources	26,568,000	26,400,000	25,507,620	(892,380)
Incoming transfers	12,000,000	10,500,000	10,655,424	155,424
Intermediate sources	48,000	70,000	48,832	(21,168)
Total revenues	177,092,000	174,100,000	173,899,057	(200,943)
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	72,400,000	62,000,000	61,756,187	243,813
Added needs	27,422,000	35,370,000	35,564,810	(194,810)
Adult and continuing education		370,000	384,006	(14,006)
Total instruction	99,822,000	97,740,000	97,705,003	34,997
Supporting services:				
Pupil	17,770,000	17,800,000	17,633,225	166,775
Instructional staff	12,460,000	11,600,000	11,555,081	44,919
General administration	1,000,000	980,000	963,995	16,005
School administration	9,840,000	9,800,000	9,868,787	(68,787)
Business	4,190,000	3,580,000	3,664,540	(84,540)
Operation/maintenance	17,460,000	18,100,000	17,738,270	361,730
Pupil transportation	8,840,000	9,100,000	8,628,978	471,022
Central	3,500,000	4,440,000	4,349,509	90,491
Other		300,000	545,732	(245,732)
Total supporting services	75,060,000	75,700,000	74,948,117	751,883
Community service activities	310,000	370,000	388,969	(18,969)
Total expenditures	175,192,000	173,810,000	173,042,089	767,911
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,900,000	290,000	856,968	566,968
OTHER FINANCING SOURCES (USES):				
Proceeds from issuance of debt			184,292	184,292
Operating transfers from other funds		1,720,000	270,052	(1,449,948)
Operating transfers to other funds	(2,700,000)	(4,160,000)	(4,297,251)	(137,251)
Total other financing sources (uses)	(2,700,000)	(2,440,000)	(3,842,907)	(1,402,907)
SPECIAL ITEM:				
Sale of school buildings			843,458	843,458
NET CHANGE IN FUND BALANCE	\$ (800,000)	\$ (2,150,000)	(2,142,481)	\$ 7,519
FUND BALANCE:				
Beginning of year			17,105,596	
End of year			<u>\$ 14,963,115</u>	

ADDITIONAL INFORMATION

**LANSING SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2006**

	Special revenue funds	Debt service funds	Capital projects funds	Total nonmajor governmental funds
ASSETS				
ASSETS:				
Cash and cash equivalents	\$ 59,648	\$1,739,524	\$3,183,323	\$ 4,982,495
Accounts receivable	11,308			11,308
Taxes receivable		326,585		326,585
Due from other governmental units	147,889			147,889
Due from other funds	142,942	79,050	1,629,283	1,851,275
Inventories	150,165			150,165
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	\$ 511,952	\$2,145,159	\$4,812,606	\$ 7,469,717
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 151,241	\$ 1,025	\$ 3,285	\$ 155,551
Accrued salaries and related items	70,643			70,643
Due to other funds	284,962	307,317		592,279
Deferred revenue		4,877		4,877
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	506,846	313,219	3,285	823,350
	<hr/>	<hr/>	<hr/>	<hr/>
FUND BALANCES:				
Reserved for encumbrances and capital projects			4,809,321	4,809,321
Reserved for debt service		1,831,940		1,831,940
Unreserved, undesignated	5,106			5,106
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL FUND BALANCES	5,106	1,831,940	4,809,321	6,646,367
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCES	\$ 511,952	\$2,145,159	\$4,812,606	\$ 7,469,717
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

LANSING SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2006

	Special revenue funds	Debt service funds	Capital projects funds	Total nonmajor governmental funds
REVENUES:				
Local sources:				
Property taxes	\$	\$6,339,736	\$	\$ 6,339,736
Investment earnings	5,111	158,912	129,202	293,225
Food sales and athletic admissions	1,439,033			1,439,033
Other	336	24,674		25,010
Total local sources	1,444,480	6,523,322	129,202	8,097,004
State sources	231,532	487,281		718,813
Federal sources	4,274,500			4,274,500
Total revenues	5,950,512	7,010,603	129,202	13,090,317
EXPENDITURES:				
Current:				
Food service activities	5,607,321			5,607,321
Athletic activities	1,608,826			1,608,826
Capital outlay			1,341,316	1,341,316
Debt service:				
Principal repayment		3,475,875		3,475,875
Interest expense		3,462,969		3,462,969
Other expense		5,175		5,175
Total expenditures	7,216,147	6,944,019	1,341,316	15,501,482
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,265,635)	66,584	(1,212,114)	(2,411,165)
OTHER FINANCING SOURCES (USES):				
Operating transfers from other funds	1,540,793	409,000	2,347,458	4,297,251
Operating transfers to other funds	(270,052)			(270,052)
Total other financing sources (uses)	1,270,741	409,000	2,347,458	4,027,199
NET CHANGE IN FUND BALANCES	5,106	475,584	1,135,344	1,616,034
FUND BALANCES:				
Beginning of year		1,356,356	3,673,977	5,030,333
End of year	\$ 5,106	\$1,831,940	\$ 4,809,321	\$ 6,646,367

**LANSING SCHOOL DISTRICT
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006**

	Food service fund	Athletic fund	Totals
ASSETS			
Cash and cash equivalents	\$ 272	\$ 59,376	\$ 59,648
Accounts receivable	11,308		11,308
Due from other funds		142,942	142,942
Due from other governmental units	147,889		147,889
Inventories	150,165		150,165
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	\$ 309,634	\$ 202,318	\$ 511,952
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 128,019	\$ 23,222	\$ 151,241
Accrued salaries and related items	57,779	12,864	70,643
Due to other funds	123,836	161,126	284,962
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	309,634	197,212	506,846
FUND BALANCES:			
Undesignated		5,106	5,106
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCES	\$ 309,634	\$ 202,318	\$ 511,952
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**LANSING SCHOOL DISTRICT
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006**

	Food service fund	Athletic fund	Totals
REVENUES:			
Sales	\$ 1,200,902	\$	\$ 1,200,902
State aid	231,532		231,532
Federal aid	4,274,500		4,274,500
Admissions		238,131	238,131
Interest on investments	941	4,170	5,111
Other	336		336
	<hr/>	<hr/>	<hr/>
Total revenues	5,708,211	242,301	5,950,512
	<hr/>	<hr/>	<hr/>
EXPENDITURES:			
Cost of goods sold - net	2,609,922		2,609,922
Salaries and wages	1,782,175	895,000	2,677,175
Employee benefits	1,087,932	300,951	1,388,883
Contracted services	65,763	252,372	318,135
Travel, workshops, and conferences	11,599	3,296	14,895
Materials and supplies	40,317	74,468	114,785
Capital outlay	4,899	82,739	87,638
Miscellaneous	4,714		4,714
	<hr/>	<hr/>	<hr/>
Total expenditures	5,607,321	1,608,826	7,216,147
	<hr/>	<hr/>	<hr/>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	100,890	(1,366,525)	(1,265,635)
	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES):			
Operating transfers from other funds	24,793	1,516,000	1,540,793
Operating transfers to other funds	(125,683)	(144,369)	(270,052)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(100,890)	1,371,631	1,270,741
	<hr/>	<hr/>	<hr/>
NET CHANGE IN FUND BALANCES		5,106	5,106
		<hr/>	<hr/>
FUND BALANCES:			
Beginning of year			
	<hr/>	<hr/>	<hr/>
End of year	\$	\$ 5,106	\$ 5,106
	<hr/>	<hr/>	<hr/>

**LANSING SCHOOL DISTRICT
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006**

	1990	1991	1992	1998	QZAB	2003 Energy	2003 Refunding	Totals
ASSETS								
Cash and cash equivalents	\$ 51,443	\$ 83,046	\$ 55,173	\$ 13,196	\$ 893,504	\$ 113,948	\$ 527,932	\$ 1,739,524
Taxes receivable	1,908	3,039	1,903	11,291			308,444	326,585
Due from other funds	22,011	35,059	21,980					79,050
TOTAL ASSETS	\$ 75,362	\$ 121,144	\$ 79,056	\$ 24,487	\$ 893,504	\$ 113,948	\$ 836,376	\$ 2,145,159
LIABILITIES AND FUND BALANCES								
LIABILITIES:								
Due to other funds	\$	\$	\$	\$ 4,300	\$ 2,327	\$ 108,111	\$ 192,579	\$ 307,317
Accounts payable	750		275					1,025
Deferred revenue							4,877	4,877
TOTAL LIABILITIES	750		275	4,300	2,327	108,111	197,456	313,219
FUND BALANCES:								
Reserved for debt service	74,612	121,144	78,781	20,187	891,177	5,837	638,920	1,831,940
TOTAL LIABILITIES AND FUND BALANCES	\$ 75,362	\$ 121,144	\$ 79,056	\$ 24,487	\$ 893,504	\$ 113,948	\$ 836,376	\$ 2,145,159

**LANSING SCHOOL DISTRICT
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006**

	1990	1991	1992	1998	1998 Durant	QZAB	2003 Energy	2003	2003 Refunding	Totals
REVENUES:										
Local sources:										
Current property taxes	\$ 540,622	\$ 861,210	\$ 539,261	\$ 158,103	\$	\$	\$	\$4,240,540	\$	\$6,339,736
Interest on investments	15,257	24,474	15,282	4,392		22,367	4,550	72,538	52	158,912
Other	2,104	3,352	2,099	614				16,505		24,674
State sources					487,281					487,281
Total revenues	557,983	889,036	556,642	163,109	487,281	22,367	4,550	4,329,583	52	7,010,603
EXPENDITURES:										
Redemption of serial bonds	500,000	800,000	500,000	50,000	335,875		100,000	1,190,000		3,475,875
Interest on bonded debt	35,000	54,400	28,750	154,125	151,406		27,213	3,012,075		3,462,969
Other	1,500	1,000	825	600		250	500	500		5,175
Total expenditures	536,500	855,400	529,575	204,725	487,281	250	127,713	4,202,575		6,944,019
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	21,483	33,636	27,067	(41,616)		22,117	(123,163)	127,008	52	66,584
OTHER FINANCING SOURCES (USES):										
Operating transfers from other funds						280,000	129,000			409,000
NET CHANGE IN FUND BALANCES	21,483	33,636	27,067	(41,616)		302,117	5,837	127,008	52	475,584
FUND BALANCES:										
Beginning of year	53,129	87,508	51,714	61,803		589,060		511,912	1,230	1,356,356
End of year	\$ 74,612	\$ 121,144	\$ 78,781	\$ 20,187	\$	\$891,177	\$ 5,837	\$ 638,920	\$ 1,282	\$1,831,940

**LANSING SCHOOL DISTRICT
CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006**

ASSETS	Capital projects	BTS capital project	Replacement fund	QZAB	Bond Project Technology	Totals
Cash and cash equivalents	\$ 1,398,649	\$ 155,811	\$ 1,185,798	\$ 443,065	\$	\$ 3,183,323
Due from other funds	358,395	98	1,405	8,240	1,261,145	1,629,283
TOTAL ASSETS	\$ 1,757,044	\$ 155,909	\$ 1,187,203	\$ 451,305	\$ 1,261,145	\$ 4,812,606
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts payable	\$ 3,285	\$	\$	\$	\$	\$ 3,285
FUND BALANCES:						
Reserved for capital projects	1,753,759	155,909	1,187,203	451,305	1,261,145	4,809,321
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,757,044	\$ 155,909	\$ 1,187,203	\$ 451,305	\$ 1,261,145	\$ 4,812,606

**LANSING SCHOOL DISTRICT
CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006**

	Capital projects	BTS capital project	Replacement fund	QZAB	Bond project technology	Totals
REVENUES:						
Interest on investments	\$ 47,031	\$ 6,401	\$ 50,282	\$ 25,488	\$	\$ 129,202
EXPENDITURES:						
Capital outlay	14,320		212,188	705,498	238,855	1,170,861
Other	170,455					170,455
Total expenditures	184,775		212,188	705,498	238,855	1,341,316
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(137,744)	6,401	(161,906)	(680,010)	(238,855)	(1,212,114)
OTHER FINANCING SOURCES (USES):						
Operating transfers from other funds	847,458				1,500,000	2,347,458
NET CHANGE IN FUND BALANCES	709,714	6,401	(161,906)	(680,010)	1,261,145	1,135,344
FUND BALANCES:						
Beginning of year	1,044,045	149,508	1,349,109	1,131,315		3,673,977
End of year	<u>\$ 1,753,759</u>	<u>\$ 155,909</u>	<u>\$ 1,187,203</u>	<u>\$ 451,305</u>	<u>\$ 1,261,145</u>	<u>\$ 4,809,321</u>

**LANSING SCHOOL DISTRICT
FIDUCIARY FUND TYPES
COMBINING BALANCE SHEET
JUNE 30, 2006**

	Private purpose trust fund	Agency fund	Totals
ASSETS			
Cash and cash equivalents	\$ 378,480	\$ 972,689	\$ 1,351,169
Accounts receivable	108	141,713	141,821
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 378,588</u></u>	<u><u>\$ 1,114,402</u></u>	<u><u>\$ 1,492,990</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 33,679	\$ 70,842	\$ 104,521
Accrued expenses	6,865		6,865
Due to student groups		1,043,560	1,043,560
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	40,544	1,114,402	1,154,946
FUND BALANCES:			
Reserved for trust activities	<u>338,044</u>	<u> </u>	<u>338,044</u>
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 378,588</u></u>	<u><u>\$ 1,114,402</u></u>	<u><u>\$ 1,492,990</u></u>

**LANSING SCHOOL DISTRICT
FIDUCIARY FUND TYPES
STATEMENT OF REVENUES, EXPENDITURES
AND FUND BALANCES - PRIVATE PURPOSE TRUST FUND
YEAR ENDED JUNE 30, 2006**

	Balance 07/01/05	Revenues and transfers	Expenditures and transfers	Balance 06/30/06
Library revolving funds	\$ 87,556	\$ 3,568	\$	\$ 91,124
Harold Norton award	1,067	43	150	960
Carl McLean award	10,204	31,141	30,623	10,722
Grabow scholarship	213	9		222
Memorial fund donations	7,008	286		7,294
Special education donations	1,314	57		1,371
Windfuhr scholarship	1,874	377		2,251
Miscellaneous funds	191,319	202,995	170,214	224,100
	<u>\$ 300,555</u>	<u>\$ 238,476</u>	<u>\$ 200,987</u>	<u>\$ 338,044</u>

**LANSING SCHOOL DISTRICT
FIDUCIARY FUND TYPES
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES BY SCHOOL - AGENCY FUND
YEAR ENDED JUNE 30, 2006**

	Balance 07/01/05	Additions	Deductions	Balance 06/30/06
Eastern High School	\$ 182,758	\$ 176,114	\$ 181,824	\$ 177,048
Hill Vocational School	124,239	149,621	155,168	118,692
Sexton High School	95,223	204,461	227,059	72,625
Everett High School	163,173	355,637	345,933	172,877
Gardner Middle School	76,050	129,066	141,457	63,659
Pattengill Middle School	28,630	36,815	41,830	23,615
Otto Middle School	19,845	86,303	87,053	19,095
Rich Middle School	49,816	55,979	55,878	49,917
Riddle Middle School	941	8,122	9,240	(177)
CLCCA	157	801	938	20
Elementary schools and other	320,743	478,633	453,187	346,189
	<u>\$ 1,061,575</u>	<u>\$ 1,681,552</u>	<u>\$ 1,699,567</u>	<u>\$ 1,043,560</u>

LANSING SCHOOL DISTRICT
BONDED DEBT - PRINCIPAL AND INTEREST REQUIREMENTS
JUNE 30, 2006

2003 School Building and Site and Refunding Bonds

Calendar year	Interest rate	Principal due	Interest due		Total due
		May 1	May 1	November 1	annually
2006	4.000%	\$	\$	\$ 1,482,238	\$ 1,482,238
2007	2.000%	2,095,000	1,482,238	1,461,288	5,038,526
2008	5.000%	2,215,000	1,461,288	1,405,913	5,082,201
2009	5.000%	2,385,000	1,405,913	1,346,288	5,137,201
2010	5.000%	3,150,000	1,346,287	1,267,537	5,763,824
2011	4.000%	3,275,000	1,267,537	1,202,037	5,744,574
2012	4.000%	3,400,000	1,202,037	1,134,037	5,736,074
2013	4.000%	3,525,000	1,134,037	1,063,537	5,722,574
2014	3.550%	3,650,000	1,063,537	998,750	5,712,287
2015	5.000%	3,775,000	998,750	904,375	5,678,125
2016	5.000%	3,925,000	904,375	806,250	5,635,625
2017	5.000%	4,100,000	806,250	703,750	5,610,000
2018	5.000%	4,275,000	703,750	596,875	5,575,625
2019	5.000%	4,450,000	596,875	485,625	5,532,500
2020	5.000%	4,625,000	485,625	370,000	5,480,625
2021	5.000%	4,800,000	370,000	250,000	5,420,000
2022	5.000%	4,975,000	250,000	125,625	5,350,625
2023	5.000%	5,025,000	125,625		5,150,625
Total 2003 bonded debt		<u>\$ 63,645,000</u>	<u>\$ 15,604,124</u>	<u>\$ 15,604,125</u>	<u>\$ 94,853,249</u>

The above bonds dated February 10, 2004 were issued for the purpose of erecting, furnishing and equipping a new middle school building to replace the Pattengill Middle School and a magnet elementary school addition and partially remodeling, refurnishing and re-equipping the Otto, Gardner and Dwight Rich Middle Schools and the Eastern, Sexton and Everett High Schools, including science labs; and developing and improving sites, playfields, athletic fields and facilities; and refunding a part of the School District's 1992 School Building and Site Bonds, Series IV. The amount of the original bond issue was \$64,835,000.

**LANSING SCHOOL DISTRICT
BONDED DEBT - PRINCIPAL AND INTEREST REQUIREMENTS
JUNE 30, 2006**

1998 School Refunding Bonds

Calendar year	Interest rate	Principal due May 1	Interest due		Total due annually
			May 1	November 1	
2006	4.25%	\$	\$	\$ 76,000	\$ 76,000
2007	5.00%	1,035,000	76,000	50,125	1,161,125
2008	5.00%	1,005,000	50,125	25,000	1,080,125
2009	5.00%	1,000,000	25,000		1,025,000
Total 1998 bonded debt		<u>\$ 3,040,000</u>	<u>\$ 151,125</u>	<u>\$ 151,125</u>	<u>\$ 3,342,250</u>

The above bonds dated January 15, 1998 were issued for the purpose of refunding bonds issued in prior years. The amount of the original bond issue was \$5,810,000.

Bonds of this issue maturing in the years 1998 through 2008 shall not be subject to redemption. Bonds or portions of bonds in multiples of \$5,000 of this issue, maturing in 2009 shall be subject to redemption prior to maturity at the option of the issuer in such order as the issuer may determine and by lot within any maturity on any interest payment date occurring on or after May 1, 2008 at par and accrued interest to the date fixed for redemption.

LANSING SCHOOL DISTRICT
BONDED DEBT - PRINCIPAL AND INTEREST REQUIREMENTS
JUNE 30, 2006

2002 Energy Conservation Improvement Bonds

Calendar year	Interest rate	Principal due May 1	Interest due		Total due annually
			May 1	November 1	
2006	3.000%	\$	\$	\$ 12,106	\$ 12,106
2007	3.000%	105,000	12,106	10,531	127,637
2008	3.250%	110,000	10,531	8,744	129,275
2009	3.375%	115,000	8,744	6,803	130,547
2010	3.500%	120,000	6,803	4,703	131,506
2011	3.625%	125,000	4,703	2,438	132,141
2012	3.750%	130,000	2,438		132,438
Total 2002 bonded debt		<u>\$ 705,000</u>	<u>\$ 45,325</u>	<u>\$ 45,325</u>	<u>\$ 795,650</u>

The above bonds dated August 1, 2002 were issued for the purpose of paying the cost of certain energy conservation improvement projects for the school district facilities. The amount of the original bond issue was \$1,000,000.

Bonds of this issue are not subject to redemption prior to maturity.

**LANSING SCHOOL DISTRICT
BONDED DEBT - PRINCIPAL REQUIREMENTS
JUNE 30, 2006**

2002 Qualified Zone Academy Bonds

Calendar year	Interest rate	Principal due September 17
2016	0.00%	<u>\$ 5,000,000</u>

The above bonds dated September 17, 2002 were issued for the purpose of paying costs of providing energy conservation improvements to school facilities. The amount of the original bond issue was \$5,000,000.

Bonds of this issue are not subject to redemption prior to maturity.

**LANSING SCHOOL DISTRICT
BONDED DEBT - PRINCIPAL AND INTEREST REQUIREMENTS
JUNE 30, 2006**

1998 School Improvement Bonds (Durant Bonds)

Calendar year	Interest rate	Principal due May 15	Interest due May 15	Total due annually
2007	4.76%	\$ 351,785	\$ 135,414	\$ 487,199
2008	4.76%	368,624	118,665	487,289
2009	4.76%	1,639,391	660,103	2,299,494
2010	4.76%	404,548	82,726	487,274
2011	4.76%	423,817	63,464	487,281
2012	4.76%	443,971	43,284	487,255
2013	4.76%	465,104	22,145	487,249
Total 1998 bonded debt		<u>\$ 4,097,240</u>	<u>\$ 1,125,801</u>	<u>\$ 5,223,041</u>

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

LANSING SCHOOL DISTRICT
SCHEDULE OF INVESTMENTS AND CERTIFICATES OF DEPOSIT
JUNE 30, 2006

	<u>Maturity date</u>	<u>Interest rate</u>	<u>Amount</u>
Pooled Funds			
Bank of New York	N/A		\$ 14,197,125
Government Bonds			
Bank of New York	various	various	23,215,458
Certificates of deposit:			
Irwin Union Bank	07/03/06	5.33%	1,000,000
Irwin Union Bank	07/14/06	5.40%	1,500,000
Irwin Union Bank	07/28/06	5.37%	1,500,000
Mercantile Bank	07/17/06	5.35%	1,000,000
Money market fund:			
Fifth Third Bank	N/A	4.28%	3,206,400
Huntington Bank	N/A	4.30%	1,515,304
Flagstar Bank	N/A	4.25%	9,404
Total investments and certificates of deposit			47,143,691
Less:			
Certificates of deposit and money markets classified as cash and cash equivalents			<u>23,928,233</u>
Total investments shown in district-wide statements			<u><u>\$ 23,215,458</u></u>

LANSING SCHOOL DISTRICT
ADDITIONAL REPORTS REQUIRED BY
OMB CIRCULAR A-133
YEAR ENDED JUNE 30, 2006

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Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
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Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education
Lansing School District
Lansing, Michigan

September 29, 2006

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lansing School District as of and for the year ended June 30, 2006, which collectively comprise Lansing School District's basic financial statements and have issued our report thereon dated September 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lansing School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Board of Education
Lansing School District
Lansing, Michigan

September 29, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lansing School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain immaterial instances of noncompliance or other matters that we have reported to management of Lansing School District in a separate letter dated September 29, 2006.

This report is intended solely for the information and use of the board of education, management, U.S. Department of Education and Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Mamey, Costeusan & Ellis, P.C." The signature is written in a cursive, flowing style.

Certified Public Accountants



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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
Lansing School District
Lansing, Michigan

September 29, 2006

Compliance

We have audited the compliance of Lansing School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Lansing School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs are the responsibility of Lansing School District's management. Our responsibility is to express an opinion on Lansing School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lansing School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Lansing School District's compliance with those requirements.

In our opinion, Lansing School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Lansing School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Lansing School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lansing School District as of and for the year ended June 30, 2006, and have issued our report thereon dated September 29, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Lansing School District's basic financial statements. The accompanying schedule of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

 E. Ellis, P.C.

Certified Public Accountants

**LANSING SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Federal grantor/pass-through grantor/program title	District ID number	Federal CFDA number	Pass-through grantor's number	Approved award amount	(Memo only) prior year expenditures	Accrued (deferred) revenue 6/30/2005	Current year expenditures	Current year receipts (cash basis)	Accrued (deferred) revenue 6/30/2006
<u>U.S. Department of Agriculture:</u>									
<u>Child Nutrition Cluster</u>									
Passed through Michigan Department of Education:									
National School Lunch - Section 4	N/A	10.555	051950	\$ 363,230	\$ 316,331	\$ 13,197	\$ 46,899	\$ 60,096	\$
National School Lunch - Section 11	N/A	10.555	051960	2,737,631	2,237,631	95,026	343,028	438,054	
National School Lunch - Snack	N/A	10.555	051980	39,636	31,964	247	4,972	5,219	
Fruit and Vegetable Pilot Program	5895	10.555	050950	169,677	60,410	52,272	63,826	116,367	(269)
Fruit and Vegetable Pilot Program	5896	10.555	050950	34,973			23,291		23,291
National School Lunch - Section 4	N/A	10.555	061950	348,903	38,793		302,456	302,456	
National School Lunch - Section 11	N/A	10.555	061690	2,577,755	315,444		2,262,311	2,186,491	75,820
National School Lunch - Snack	N/A	10.555	061980	36,730	2,140		12,557	12,525	32
				<u>6,308,535</u>	<u>3,002,713</u>	<u>160,742</u>	<u>3,059,340</u>	<u>3,121,208</u>	<u>98,874</u>
Summer Food Service	5996	10.559	050900	197,867	37,923	37,923	75,836	113,759	
Summer Food Service	5997	10.559	060900	197,867			41,070		41,070
				<u>395,734</u>	<u>37,923</u>	<u>37,923</u>	<u>116,906</u>	<u>113,759</u>	<u>41,070</u>
National School Lunch - Breakfast	N/A	10.553	051970	35,368	723,191	35,368		35,368	
National School Lunch - Breakfast	N/A	10.553	061970	840,297			840,297	815,382	24,915
				<u>875,665</u>	<u>723,191</u>	<u>35,368</u>	<u>840,297</u>	<u>850,750</u>	<u>24,915</u>
Total child nutrition cluster				<u>7,579,934</u>	<u>3,763,827</u>	<u>234,033</u>	<u>4,016,543</u>	<u>4,085,717</u>	<u>164,859</u>
National School Lunch - Commodity Entitlement	N/A	10.550	----	250,138	211,776		250,138	250,138	
National School Lunch - Commodity Bonus	N/A	10.550	----	7,819	32,035		7,819	7,819	
				<u>257,957</u>	<u>243,811</u>		<u>257,957</u>	<u>257,957</u>	
TOTAL U.S. DEPARTMENT OF AGRICULTURE				<u>7,837,891</u>	<u>4,007,638</u>	<u>234,033</u>	<u>4,274,500</u>	<u>4,343,674</u>	<u>164,859</u>

The accompanying notes are an integral part of this schedule.

**LANSING SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Federal grantor/pass-through grantor/program title	District ID number	Federal CFDA number	Pass-through grantor's number	Approved award amount	(Memo only) prior year expenditures	Accrued (deferred) revenue 6/30/2005	Current year expenditures	Current year receipts (cash basis)	Accrued (deferred) revenue 6/30/2006
<u>U.S. Department of Education:</u>									
Direct programs:									
Impact Aid	1366	84.041	-----	\$ 19,883	\$ 19,883	\$	\$ 17,080	\$ 17,080	\$
Indian Education	1305	84.060A	B060A040962	62,276	66,373	15,724	(4,097)	11,627	
Indian Education	1306	84.060A	B060A050962	66,911			66,911	55,206	11,705
				129,187	66,373	15,724	62,814	66,833	11,705
Magnet Schools - Carryover	1506	84.165	U165A050034	2,719,838			2,498,261	2,275,040	223,221
Magnet Schools	1515	84.165	S165A010058	450,711	450,711	10,102		10,102	
				3,170,549	450,711	10,102	2,498,261	2,285,142	223,221
Help One Student Succeed	1345	84.215	U215K040189	196,832	195,708	32,509	1,124	33,633	
Smaller Learning Communities	1535	84.215	V215L042256	366,665	242,901	96,234		96,234	
Smaller Learning Communities	1536	84.215	V215L042256	733,330			382,158	348,886	33,272
American History Professional Development	1576	84.215	U215X050204	999,996			210,012	175,283	34,729
				2,099,991	242,901	96,234	592,170	620,403	68,001
21st Century Teen - Carryover	1455	84.287A	S287A010855-04	382,414	372,192	80,686	1,865	98,105	(15,554)
Reading is Fundamental	1486	84.257	MI012	45,666			32,838	32,838	
Michigan Art Project	1566	84.351C	U351C050085	344,065			208,905	202,966	5,939
Literacy Through Libraries	1546	84.364	S364A050092	346,769			214,763	172,186	42,577
Passed through Michigan Department of Education:									
ABE English Literacy/Civics	1085	84.002	051120/5500564	25,245	25,245	21,086		21,086	
ABE English Literacy/Civics	1086	84.002	0611206500565	17,700			17,700	16,727	973
ABE Sec 306	4065	84.002	051130/511055	250,200	250,200	52,722		52,722	
ABE Sec 306	4066	84.002	061130611056	200,200			196,036	175,982	20,054
ABE Sec 306	4096	84.002		6,000			6,000		6,000
				499,345	275,445	73,808	219,736	266,517	27,027

The accompanying notes are an integral part of this schedule.

**LANSING SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Federal grantor/pass-through grantor/program title	District ID number	Federal CFDA number	Pass-through grantor's number	Approved award amount	(Memo only) prior year expenditures	Accrued (deferred) revenue 6/30/2005	Current year expenditures	Current year receipts (cash basis)	Accrued (deferred) revenue 6/30/2006
<u>U.S. Department of Education (Continued):</u>									
Passed through Michigan Department of Education (Continued):									
ECIA Title I - School Improvement	1046	84.010	051550/0506	\$ 45,000	\$	\$	\$ 7,810	\$	\$ 7,810
ECIA Title I - Regular	1005	84.010	051530/0405	6,835,048	6,598,509	515,398	236,538	751,936	
ECIA Title I - Regular	1006	84.010	0615300506	7,874,650			7,619,063	7,175,079	443,984
ECIA Title I - Carryover	1015	84.010	04530/0405	1,647,856	1,647,856	1,647,856		1,647,856	
ECIA Title I - Carryover	1016	84.010	051530/0506	1,153,443			1,153,444		1,153,444
ECIA Title I - N & D	1025	84.010	051700/0405	46,497	41,678	15,437	4,819	20,256	
ECIA Title I - N & D	1026	84.010	041700/0304	34,607			28,560		28,560
ECIA Title I - N & D - Carryover	1035	84.010	041700/0405	6,353	6,353	6,353		6,353	
ECIA Title I - N & D - Carryover	1036	84.010	051700/0506	25,325			14,745		14,745
				<u>17,668,779</u>	<u>8,294,396</u>	<u>2,185,044</u>	<u>9,064,979</u>	<u>9,601,480</u>	<u>1,648,543</u>
Drug Free Schools	4005	84.186	052860/0405	193,224	193,224	17,710		17,710	
Drug Free Schools	4006	84.186	062860/0506	193,711			193,711	178,672	15,039
Drug Free Schools - Carryover	4015	84.186	042860/0405	22,993	22,993	13,636		13,636	
Drug Free Schools - Carryover	4016	84.186	052860/0506	4,898			4,716	529	4,187
				<u>414,826</u>	<u>216,217</u>	<u>31,346</u>	<u>198,427</u>	<u>210,547</u>	<u>19,226</u>
ECIA Title V - Regular	1145	84.298	050250/0405	38,242	35,186	(30,772)	3,056	(27,716)	
ECIA Title V - Regular	1146	84.298	050250/0405	90,735			39,190		39,190
ECIA Title V - Carryover	1155	84.298	040250/0405	94,624	94,624	94,624		94,624	
ECIA Title V - Carryover	1156	84.298	050250/0506	98,058			98,060		98,060
				<u>321,659</u>	<u>129,810</u>	<u>63,852</u>	<u>140,306</u>	<u>66,908</u>	<u>137,250</u>
Title IID Technology	1265	84.318	054290/0405	120,972	113,594	106,607	7,375	113,982	
Title IID Technology	1266	84.318	064290/0506	149,028			103,006		103,006
Title IID Technology C/O	1275	84.318	044290/0405	30,557	30,557	30,557		30,557	
Title IID Technology C/O	1276	84.318	054290/0506	82,047			82,046		82,046
Freedom to Learn	4215	84.318	054280/-4	52,844			52,844	52,844	
Freedom to Learn	4206	84.318					14,312	20,000	(5,688)
Freedom to Learn	4226	84.318					2,353	11,000	(8,647)
Freedom to Learn	4246	84.318	064280/5A	5,000			5,000	5,000	
Learning Without Limits	4345	84.318	044280-2	632,941	623,048	4,078	9,892	13,970	
				<u>1,073,389</u>	<u>767,199</u>	<u>141,242</u>	<u>276,828</u>	<u>247,353</u>	<u>170,717</u>

The accompanying notes are an integral part of this schedule.

**LANSING SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Federal grantor/pass-through grantor/program title	District ID number	Federal CFDA number	Pass-through grantor's number	Approved award amount	(Memo only) prior year expenditures	Accrued (deferred) revenue 6/30/2005	Current year expenditures	Current year receipts (cash basis)	Accrued (deferred) revenue 6/30/2006
<u>U.S. Department of Education (Continued):</u>									
Passed through Michigan Department of Education (Continued):									
Reading First Facilitator	4385	84.357	052920/020303	\$ 104,937.00	\$ 104,937.00	\$ 16,648.00	\$	\$ 16,648.00	\$
Reading First Facilitator	4386	84.357	052910/050601	222,014			212,553	179,550	33,003
Reading First	4365	84.357	042930/030402	1,470,481	1,470,481	160,359		160,359	
Reading First	4366	84.357	052930/030402	1,347,750			1,289,786	1,060,076	229,710
				3,145,182	1,575,418	177,007	1,502,339	1,416,633	262,713
Title III English Language Acquisition	1125	84.365	050580/0405	160,733	140,090	(3,546)	20,973	17,427	
Title III English Language Acquisition	1126	84.365	050580/0405	161,063			87,270		87,270
Title III English Language Acquisition C/O	1135	84.365	040580/0405	27,400	27,400	27,400		27,400	
				349,196	167,490	23,854	108,243	44,827	87,270
Title IIA, Improving Teacher Quality	1095	84.367	050520/0405	1,924,558	1,924,558	575,567	(1,178)	574,389	
Title IIA, Improving Teacher Quality	1096	84.367		1,910,306			515,640		515,640
Title IIA, Improving Teacher Quality C/O	1115	84.367	040520/0405	341,028	341,026	341,026		341,026	
				4,175,892	2,265,584	916,593	514,462	915,415	515,640
Comprehensive School Reform Demonstration	4275	84.332	041870/0405	581,553	373,051	84,616	208,502	293,118	
Comprehensive School Reform Demonstration	4276	84.332	051870/0506	544,000			465,998	449,498	16,500
				1,125,553	373,051	84,616	674,500	742,616	16,500
<u>Special Education Cluster</u>									
Passed through Ingham Intermediate School District:									
IDEA Flowthrough A	2205	84.027	050450/0405	7,250,000	7,250,000	1,309,203		1,309,203	
IDEA Flowthrough A	2206	84.027	060450/0506	7,554,426			7,554,426	5,914,232	1,640,194
IDEA Flowthrough B	2215	84.027	040450/0405	595,686	595,686	106,463		106,463	
IDEA Flowthrough B	2216	84.027	050450/0506	378,308			378,308	253,804	124,504
				15,778,420	7,845,686	1,415,666	7,932,734	7,583,702	1,764,698
IDEA Pre-school Development A	2105	84.173A	050460/0405	172,534	172,534	18,667		18,667	
IDEA Pre-school Development A	2106	84.173A	060460/0506	163,666			163,666	140,789	22,877
				336,200	172,534	18,667	163,666	159,456	22,877
Total special education cluster				16,114,620	8,018,220	1,434,333	8,096,400	7,743,158	1,787,575

The accompanying notes are an integral part of this schedule.

**LANSING SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Federal grantor/pass-through grantor/program title	District ID number	Federal CFDA number	Pass-through grantor's number	Approved award amount	(Memo only) prior year expenditures	Accrued (deferred) revenue 6/30/2005	Current year expenditures	Current year receipts (cash basis)	Accrued (deferred) revenue 6/30/2006
<u>U.S. Department of Education (Continued):</u>									
Passed through Michigan Department of Education (Continued):									
Passed through Clinton County RESA:									
Voc Ed Special Needs	4075	84.048A	--	\$ 394,017	\$ 394,136	\$ 144,059	\$ (119)	\$ 143,940	\$
Voc Ed Special Needs	4076	84.048A	--	374,270			370,939	254,098	116,841
				768,287	394,136	144,059	370,820	398,038	116,841
Education for Homeless Children and Youth	4405	84.196A	043220/0405	11,250	11,250	11,250		11,250	
Education for Homeless Children and Youth	4406	84.196A	062320/0506	28,662			19,972	15,439	4,533
				39,912	11,250	11,250	19,972	26,689	4,533
Technical Preparation	4085	84.243A	--	23,750	11,691	7,701	(95)	7,606	
Technical Preparation	4086	84.243A	--	23,788			23,778	9,024	14,754
				47,538	11,691	7,701	23,683	16,630	14,754
TOTAL U.S. DEPARTMENT OF EDUCATION				52,479,534	23,847,675	5,529,960	24,840,515	25,225,997	5,144,478
<u>U.S. Department of Health and Human Services</u>									
Passed through Michigan State University									
Nursing Model	1555	93.778	5XX05MI5048	72,370	64,320	22,416	8,050	30,466	
<u>U.S. Department of Homeland Security</u>									
Passed through Michigan Department of State Police									
Homeland Security	1336	97.004	--	9,650			9,650	9,650	
<u>National Science Foundation:</u>									
Passed through Michigan State University:									
Devel Leadership & Support for Urban Science Teaching	1444	47.076	ESI0138945	117,352		11,927			11,927
Devel Leadership & Support for Urban Science Teaching	1445	47.076	ESI0138945	118,743	118,743	118,743			118,743
Devel Leadership & Support for Urban Science Teaching	1446	47.076	ESI0138945				106,697		106,697
Devel Leadership & Support for Urban Science Teaching C/O	1464	47.076	ESI0138945	44,000		31,081			31,081
				280,095	118,743	161,751	106,697		268,448
Mathematics Assessment	0165	47.076		102,475	99,725	59,891		59,891	
Mathematics Assessment	0166	47.076		110,326			110,204	56,734	53,470
				212,801	99,725	59,891	110,204	116,625	53,470

The accompanying notes are an integral part of this schedule.

**LANSING SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Federal grantor/pass-through grantor/program title	District ID number	Federal CFDA number	Pass-through grantor's number	Approved award amount	(Memo only) prior year expenditures	Accrued (deferred) revenue 6/30/2005	Current year expenditures	Current year receipts (cash basis)	Accrued (deferred) revenue 6/30/2006
<u>U.S. Department of Labor:</u>									
<u>WIA Program Cluster</u>									
Passed through Capital Area Michigan Works:									
WIA Out of School	1395	17.255	----	\$ 100,968	\$ 94,707	\$ 15,299	\$	\$ 15,299	\$
WIA Out of School	1396	17.255	----	100,968			93,702	81,852	11,850
WIA In School Youth	1405	17.255	----	114,140	114,140	17,009		17,009	
WIA In School Youth	1406	17.255	----	114,140			114,140	102,227	11,913
WIA In School Youth	3135	17.255	----	124,797	124,797	14,217		14,217	
WIA In School Youth	3136	17.255	----	190,795			185,359	159,899	25,460
WIA In School Youth	3145	17.255	----	39,303	39,303	13,801		13,801	
WIA In School Youth	3146	17.255	----	39,303			39,303	33,066	6,237
TOTAL U.S. DEPARTMENT OF LABOR				824,414	372,947	60,326	432,504	437,370	55,460
TOTAL FEDERAL FINANCIAL ASSISTANCE				<u>\$ 61,716,755</u>	<u>\$ 28,511,048</u>	<u>\$ 6,068,377</u>	<u>\$ 29,782,120</u>	<u>\$ 30,163,782</u>	<u>\$ 5,686,715</u>

**LANSING SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTES:

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of Lansing School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. Title I, CFDA #84.010, Magnet Schools Grant, CFDA #84.165, and Title II, Part A #84.367 were audited as major programs.
3. The threshold for distinguishing Type A and Type B programs was \$893,464.
4. Management has utilized the Grant Section Auditor's Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.
5. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	\$ 25,507,620
Nonmajor funds	<u>4,274,500</u>
Total federal financial assistance	<u><u>\$ 29,782,120</u></u>

6. Program clusters contained within the schedule are as follows:

Child Nutrition Cluster consists of CFDA #10.553, #10.555, and #10.559.

Special Education Cluster consists of CFDA #84.027 and #84.173A.

**LANSING SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Section I - Summary of Auditors' Report

Financial Statements

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Reportable condition(s) identified that are not considered to be material weakness(es)? Yes X None reported

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I
84.165	Magnet Schools Grant
84.367	Title II, Part A

Dollar threshold used to distinguish between type A and type B programs: \$893,464

Auditee qualified as low-risk auditee? X Yes No

Section II - Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

**LANSING SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDING JUNE 30, 2006**

There were no findings from 2005. Findings prior to 2005 were resolved.



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Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

September 29, 2006

To the Board of Education
Lansing School District
Lansing, Michigan

In planning and performing our audit of the financial statements of Lansing School District for the year ended June 30, 2006, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated September 29, 2006, on the financial statements of Lansing School District.

PRIOR YEAR

Inventory

During the physical inventory count at the warehouse, several items were noted and still on the inventory listing that appear to be obsolete. The entire inventory listing should be reviewed and any obsolete items should be removed. In addition, we have noted year-end adjustments to inventory in order to get the physical inventory in agreement with the accounting records. We recommend the District review and update its procedures to monitor and track inventory coming and going from the warehouse, particularly note what items are sold or auctioned, in order to improve controls.

Progress

The District is working on disposing of old inventory items, and will continue to do so in the current fiscal year. Procedures are being reviewed for monitoring and tracking inventory and anything obsolete is to be sold at auctions or disposed.

Reconcile Bank Accounts on Timely Basis

In the prior year, all bank accounts were not reconciled in a timely manner.

Progress

During the current year, bank accounts are reconciled and reviewed on a timely basis.

CURRENT YEAR

Pupil Count

While the District has devoted resources and prioritized this area, it does not appear that a fully accurate process existed in 2005 - 2006 for ensuring the data reported via the Single Record Student Database (SRSD) was consistent with the paper rosters. We understand that changes are being made to improve the accuracy of the system; however, errors are still occurring and this process needs to continue to improve in order to ensure proper state funding.

Backup and Disaster Recovery

The District is in the process of updating its backup procedures for changes made to the wide area network. We encourage you to complete this task as quickly as possible. Additionally, the key component of the District's disaster recovery plan is to work with CMT to restore backups onto CMT's system in the event of a disaster. We recommend the District conduct a test restore of its backup onto CMT's equipment. Furthermore, the District should identify critical processes and assign responsibilities in the event of a disaster. Finally, the District maintains its backups in a vault in a building that is next door to the building where the primary computer systems are housed. The District may want to consider moving the backup tapes to a building that is further away geographically.

Budget Enforcement by the Michigan Department of Education

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letters to school board presidents, the superintendent and the chief business official when they identify these types of violations.

The MDE has currently identified violations of the Act to include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (Overspending your budget by line item).
- Ending the fiscal year with a deficit (negative fund balance).
- Adopting a budget that, when implemented, would put the district in a deficit.

The Department is also currently reviewing their interpretation of Section 17(2). This would be a situation where a district's actual revenues were less than budgeted revenues and, at the same time, depleted the district fund balance, beyond what was approved in total by the school board.

We recommend you continue to review your current budget amendments during the year. There will be situations where there continue to be budget violations as disclosed in footnote 2 subsection 3 of the financial statements. While there may be technical violations of the act we believe the District's current budget procedures are adequate.

Cash Management – Federal Awards

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the district within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during fiscal year 2006/2007. Thirty-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management.

We recommend the District request funds on a reimbursement basis in order to ensure compliance with the revised cash management interpretation.

New Auditing Standards

Recently, 10 new auditing standards have been released and will become effective over the District's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, one of the new standards may directly impact the District beginning with the June 30, 2007 year-end.

One of the new standards revises the dating of the auditors' report. Under the old standards, the auditors' report was dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non-auditors, it does have an impact on auditors' subsequent events work (June 30 through date of the auditors' report). The impact to the District could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Lansing School District, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

A handwritten signature in black ink that reads "Mamey Costeusan, E. Ellis, P.C." The signature is written in a cursive, flowing style.



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September 29, 2006

To the Audit Committee
Lansing School District

We have audited the financial statements of Lansing School District for the year ended June 30, 2006, and have issued our report thereon dated September 29, 2006. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Lansing School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Lansing School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Lansing School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major programs for the purpose of expressing an opinion on Lansing School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Lansing School District's compliance with those requirements.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Lansing School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by Lansing School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the liability of the payout of employee compensated absences upon their retirement is based on expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

In addition, certain estimates are used in recording and depreciating capital assets and allocating operating grants to various functions.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the school district's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the school district, either individually or in the aggregate, indicate matters that could have a significant effect on the school district's financial reporting process. Management has approved all adjustments.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the school district's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Audit Committee
Lansing School District
Lansing, Michigan

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September 29, 2006

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the audit committee, board of directors, and management of Lansing School District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Mamie Costenusan & Ellis, P.C.